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Testimony of

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to a hearing entitled

'Options to Bring the Postal Service Back from Insolvency'

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I. Introduction

My name is Fred Rolando and I am proud to serve as the elected President of the National Association of Letter Carriers (NALC), a union that represents nearly 190,000 City Letter Carriers who live and work in every Congressional District in America.

Letter carriers are rightly proud of the value we deliver to the American economy every day. The Postal Service offers excellent services at the most affordable rates in the world. Postage rates in the United States are 50-100 percent less than they are in Europe, even though we serve a geographical area that is much larger than any served by any European Union postal operator. And the quality of our service is rated among the best in the world. Indeed, a 2012 study of postal services in the G-20 group of nations by Oxford Strategic Consulting of the U.K. concluded that the USPS is the best postal service among the world's wealthiest countries (see Attachment 1 for the Executive Summary of the report).

Although mail volume is declining, and alternative forms of communication are taking the place of mail, the Postal Service remains a vital component of this country's economic and communications infrastructure. Even as the volume of letter mail is falling, the volume of packages is exploding. In the last fiscal year, USPS still handled 160 billion pieces of mail. Almost one half of all bills are still paid by mail. The majority of bills and statements received by households are still delivered by mail. Trillions of dollars move through the postal system every year. The Postal Service generates annual revenue in excess of $65 billion and the mailing industry employs 8 million Americans. In September, 2011, Postmaster General Donahoe accurately described the importance of the Postal Service to the overall economy in testimony before Congress:

> The importance of a healthy and thriving Postal Service cannot be overstated. The mailing industry, of which the Postal Service is only one component, depends on the continued evolution, growth and development of our organization. Over 8 million Americans are employed by thousands of companies and businesses which are deeply invested in the mail. The mailing industry, with the Postal Service at its core, is a major driver of the nation's economic engine—generating over $1 trillion each year. Our collective actions—particularly those of the Postal Service and Congress—to secure the future of the nation's postal system will directly affect a significant portion of the American economy. The mailing industry makes up approximately seven percent of the country's Gross Domestic Product (GDP). Failure to act could be catastrophic.

Although we very much oppose the direction the Postmaster General is leading the Postal Service, we do agree with him on this. Now is the time for Congress to act to preserve one of America's greatest institutions, the U.S. Postal Service.

Thank you for the invitation to this important hearing. And thank you for framing the financial crisis facing the Postal Service as you have. Congress does indeed have many options for saving the Postal Service, other than to slowly dismantle one of the most important parts of the nation's economic infrastructure. The option being pursued at present – relentless downsizing – is doomed to failure. It will drive more business away and lead the Postal Service into a death spiral. This option is being driven by policies adopted by Congress in 2006 -- massive pre-funding of future retiree health benefits combined with strictly inflexible price controls – that none of you would accept if applied to important businesses in your districts. These policies are just as destructive to a public enterprise like the Postal Service as they would be to any private enterprise.

This testimony will offer a wide variety of options to "bring the Postal Service back from the brink of insolvency." But the USPS needs more than options to temporarily stave off insolvency. It needs a new business model that builds on its first- and last-mile strengths and provides the enterprise with new executive leadership and new freedom to adapt to the changing needs of the 21st Century. Before Congress can intelligently legislate, it must reach a consensus on this new business model. We hope this hearing will begin the process of reaching such a consensus.

II. Origins of the Crisis

The crisis facing the Postal Service is now in its sixth year. Although there are serious underlying factors driving the postal crisis, the scale and severity of this crisis is largely due to past actions taken by Congress. In 2006, the Congress passed and President George Bush signed the Postal Accountability and Enhancement Act (PAEA) of 2006. That legislation mandated a massive level of pre-funding of future retiree health benefits with a schedule of annual payments totaling $58.8 billion over the following 10 years with additional pre-funding thereafter to be amortized over 40 years initially, and eventually over 15 years as the amortization period was reduced. (The $59 billion figure was the upper end of the estimated unfunded liability for such benefits over the next 75+ years – see page 29 of the 2006 USPS Annual Report.) The PAEA also placed strict price controls on the postage rates charged for magazines, catalogues, and letter mail (so-called market-dominant products). The new law gave the Postal Service a one-time-only option to adjust postage rates in 2007 to build the cost of the new pre-funding mandate into its prices before the new price index system kicked in (in an omnibus rate proceeding before the Postal Regulatory Commission). But the onset of what turned out to be the worst recession in 80 years led the USPS to forego that option. So USPS costs soared at a time when its revenue plummeted as the economy crashed.

Though well-intended and enacted at a time when the Postal Service was earning profits, the PAEA had a disastrous effect on the Postal Service. In a kind of perfect storm, the agency's finances were devastated by the pre-funding mandate, the price controls and the Great Recession that decimated the housing and finance industries which generate so much mail volume. On top of all this, surging fuel costs and the loss of First Class Mail to electronic bill-paying and internet communication added to the losses.

In the popular media and, unfortunately in many of the statements issued by members of Congress, the fiscal crisis at the Postal Service is often portrayed as a simple story of technological change. Although internet diversion is a serious and growing problem, not least because the ongoing crisis at the USPS seems to have accelerated the trend, it is not the main driver of USPS losses in recent years. As Table 1 indicates, nearly 80% of the Postal Service's $41 billion in reported losses stem from the $32 billion in pre-funding costs since 2007:

Table 1.

The Policy Legacy of the 2006 Postal Reform Bill (PAEA)

Pre-funding Payments to the Postal Service Retiree Health Benefit Fund (PSRHBF) vs. Reported Net Income

2007-2012*

Year	PSRHBF Expenses ($bil)	Reported Net Income ($bil)	Assets in PSRHBF ($bil)
2007	$8.358	-$5.142	$25.4
2008	$5.600	-$2.806	$31.8
2009*	$1.400	-$3.794	$34.2
2010	$5.500	-$8.505	$40.6
2011*	$0.000	-$5.067	$42.5
2012	$11.1	-$15.900	$45.0
Totals	$31.958	-$41.214	---

Prefunding expenses account for nearly 80% of reported USPS losses over the past six years since they were first imposed in 2007.

Notes: * Legislation adopted in 2009 reduced the 2009 pre-funding expense from $5.4 to $1.4 billion. Legislation adopted in 2011 deferred the $5.5 billion payment for 2011 until August 2012. USPS was unable to make the $11.1 bil. payment in 2012.

Source: Annual Reports of the Postmaster General, 2007-2012.

In the first quarter of the current fiscal year, the Postal Service earned a profit of $100 million, but reported a loss of $1.3 billion after recognizing a $1.4 billion expense for pre-funding.

Meanwhile, as other delivery companies were able to raise rates to handle rising gasoline prices and other overhead costs, the Postal Service was prohibited from raising rates above the very low levels of inflation experienced during the Great Recession – see Table 2:

Table 2.

Consumer Price Index:
CPI-Postage vs. CPI-Private Delivery

Year	CPI-Postage	CPI-Delivery Services (private delivery)
2007	2.5%	6.4%
2008	3.4%	14.7%
2009	4.9%	-6.2%
2010	2.8%	14.2%
2011	3.9%	11.7%
2012	3.5%	5.3%
Avg. Inc. (2007-2012)	**3.5%**	**7.7%**

Source: Bureau of Labor Statistics, Consumer Price Index.

- Postage rates for most USPS volume were capped at the general rate of inflation even though the pre-funding mandate caused costs to soar.
- Shared sacrifice requires the use of a more relevant price index: CPI for Delivery Services which tracks delivery prices in the private sector.

The pre-funding mandate, <u>which no other business or governmental agency faces</u>, not only crippled the Postal Service's finances, it also led the Postal Service to pursue relentless downsizing and service cuts that are driving even more mail volume out of the system. Rather than use its resources to retool to capture new volume in the booming e-commerce industry or find new products to offer through its unmatched first-mile and last-mile delivery networks, the Postal Service has used it all to cover pre-funding costs. Worse, postal management has been hunkered down in crisis mode ever since the mandate took effect, devising ever more draconian reductions in service that threaten to plunge the Postal Service into a death spiral -- where declining volume begets service cuts, prompting even further volume losses and new service cuts.

Over the past few years, the USPS has removed tens of thousands of collection boxes and is reducing operating hours in more than 10,000 post offices, weakening its first mile network and driving away more business. Now it wants to degrade its last-mile delivery network by cutting Saturday delivery, even though a third of the Postal Service's business customers say they want to keep Saturday delivery (according to USPS market research).

The members of the NALC have lost confidence in Postmaster General Donahoe – indeed the 7,000 elected delegates of the NALC biennial convention in Minneapolis unanimously adopted a "motion of no confidence" in July 2012. For these reasons, and because we are convinced that the business strategy the Postmaster General is following is doomed to failure, we have called for the PMG's resignation. We respectfully think you should do so too.

It gives us no pleasure to take this position. But our members and other postal employees have made tremendous sacrifices in recent years to save the Postal Service and those sacrifices should not be made in vain. NALC worked cooperatively with the Postal Service during the Great Recession to adapt to plunging mail volume. We eliminated more than 12,000 routes even as we added more than three million new delivery points. In recent years, we have boosted city carrier productivity dramatically, increasing average delivery addresses per route from 492 in 1999 to 616 in 2012, an increase of more than 25 percent. This has meant increasing the physical demands of our jobs by extending the hours we work on the streets from four hours to more than six hours a day, in all weather conditions. (Note that once the economy stabilized, the Postal Service unilaterally walked away from the joint process we used during the recession.)

In fact, the Postal Service has eliminated more than 193,000 jobs since 2006. And postal employees have not just sacrificed jobs – we have also done our part in recent rounds of collective bargaining to cut costs in the face of declining volume and revenues. Earlier this year the last two unions, NALC and the Mail Handlers, completed the most recent round of contract negotiations, using the interest arbitration process. Last year, the Rural Carriers Union did as well and the APWU negotiated a cost-saving contract. Through the process, arbitrators fully considered the financial condition of the Postal Service and issued awards that will save the Postal Service billions of dollars over the next three years.

The Das arbitration award issued just three months ago called for a two-year wage freeze, reduced the cost of cost-of-living adjustments and more than tripled the number of non-career/flexible schedule city carriers to reduce labor costs and to give the Postal Service more operation flexibility to capture more parcel business. According to the arbitrators decision, new career city carriers will earn 25% less when they are hired, and the Postal Service will be able to pay some 30,000 non-career carriers 33% less in wages than non-career carriers under the old contract. The Das award also called on city carriers to pay more for health insurance, shifting one percent of the cost of premiums from the USPS to the employees each year over four years.

As I mentioned earlier, the other postal unions made similar cost-cutting sacrifices that have generated huge savings. We have done our part to save the USPS. Now we urge Congress to do its part.

As the Committee deliberates over postal reform, we urge you to reverse or fundamentally modify the PAEA's unintentionally destructive policies on pre-funding and pricing, and to take action to prevent the Postal Service from downsizing itself into a death spiral. But those steps alone will not save the Postal Service. That will require an even more fundamental restructuring of the Postal Service's governing structure, executive management and regulatory environment to allow the Service to compete for e-commerce volume and to use its unmatchable networks to offer new services. That is the conclusion reached by Lazard Company's due diligence investigation of the Postal Service commissioned by the NALC and conducted in 2012 (see Attachment 2). We hope to advance Lazard's recommendations in the legislative process and NALC looks forward to working with Representatives in both parties to find solutions that will preserve the U.S. Postal Service.

In this testimony, we will offer our views on a full range of policy solutions to the crisis at the Postal Service. It is our hope that the Committee will hold additional hearings on crucial topics such as reform of the pre-funding mandate, measures to reduce the cost of postal employee health benefits, new products and pricing reforms, and the debate over Saturday delivery.

II. Repeal or Reform the Mandate to Prefund Future Retiree Health Benefits

It is strange, but true, that the Postal Service is the most financially sound, failing company in America. Its pension obligations (under CSRS and FERS) are nearly fully funded even in the face of pension cost allocation methods developed by OPM that are grossly unfair to the Postal Service (according to independent, private sector audits that are discussed below). It has also prefunded half of its future retiree health benefits. No other civilian agency in the executive branch has pre-funded these costs at all, and according to a recent Towers Watson survey of Fortune 1000 companies, only 38% of such private companies prefund at all and the *median* level of funding among those that do is just 37%. In the private sector, pre-funding is voluntary. Responsible companies pre-fund when they are profitable or use their surpluses in their pension funds to cover such costs, as encouraged by the tax code.

Unfortunately, the PAEA's uniquely burdensome prefunding mandate is literally killing the Postal Service. Implemented at the outset of the global financial crisis, the excessive level of pre-funding required by the PAEA has consumed all of the Postal Service's borrowing authority and has pushed the agency to the verge of insolvency. No private company would have funneled tens of billions of dollars into a retiree health fund in the midst of a deep recession. The Postal Service needs immediate and significant relief from this mandate – without it, no other reform can save this institution.

In the last Congress, the Senate did attempt to reduce the pre-funding burden in S. 1789. That bill lowered the target level of pre-funding from 100% to 80%, replaced the fixed schedule of prefunding payments with a two-tier set of pre-funding payments (normal cost payments and amortization payments to reduce the unfunded liability), and opened access to the Postal Service Retiree Health Benefits Fund (PSRHBF) a few years early for use to cover the cost of current retiree health premiums. The last provision provided significant short-term relief from the pre-funding burden, freeing up cash by moving the date the PSRHBF can be used to cover premiums from 2017 to 2012. But the actual level of pre-funding under S. 1789 was reduced by just 6 percent, as shown in Table 3. The level of prefunding would remain very high and the USPS would likely default on the payments required in S. 1789 in a year or two. We believe much more substantial relief is required.

There are a number of options Congress should consider to solve the prefunding problem:

1) <u>Repeal.</u> The simplest solution would be to repeal the PAEA's pre-funding mandate altogether and to allow the Postal Service to use the Postal Service Retiree Health Fund to cover the cost of retiree health premiums with the $45 billion in funds now deposited in the Postal Service Retiree Health Benefits Fund (PSRHBF). Over time, the fund would be depleted and the USPS would return to covering these costs from operating revenue on a pay-as-you-go basis. This would give the Postal Service time to restructure and adapt in the intermediate term and eventually allow it to return to the private sector standard on covering retiree health costs for companies in multi-employer plans.

The objection to this alternative is that taxpayers might eventually be required to cover the cost of postal employee retiree health costs, if the Postal Service lacked the funds or ceased to exist. The GAO has emphasized this point in its analysis of the issue. Underlying this concern is the notion that ratepayers must cover all present and future USPS costs, a convention adopted in 1970 and fully implemented by 1983. But for more than 200 years before 1983, the Post Office was funded by taxpayers and ratepayers. To say that we must adhere to the post-1983 convention forever assumes that the tax-paying public receives no benefit from the Postal Service and therefore should never have to pay any of its costs. We believe this assumption is wrong – all Americans benefit from the Postal Service, taxpayers and ratepayers alike. As a public service and as a crucial part of the nation's economic and political infrastructure, it supports national unity and national markets, encourages economic growth, and contributes to the cultural and political life of the nation.

While we do not seek nor support taxpayer operational subsidies for the Postal Service today, we do not believe the fear of a possible need for taxpayer support for retired postal employee health benefits in a doomsday scenario for the future can justify crippling the Postal Service today with an unaffordable mandate. Moreover, no other agency of the government, and I might add no institution or agency in the legislative branch of the government (which includes the House, the Senate, the GAO, the CBO and the CRS) currently pre-funds future retiree health benefits at any level. Future taxpayers will cover the cost of health benefits for retired legislative branch employees. Would future postal retirees be any less worthy of taxpayer-provided health benefits as compensation for their service to the country? The answer is: Of course not.

In any case, retaining a crushing prefunding mandate today makes it more likely, not less likely, that taxpayers will eventually have to cover the cost. Driving the Postal Service into a death spiral will not protect taxpayers. Reform that allows it to restructure and thrive will.

2) Repeal and replace. Another option would be to repeal the PAEA's pre-funding mandate and replace it with a more reasonable and affordable mandate. For example, it could be replaced with a private sector "best practices" funding standard – which would require the USPS to contribute to the PSRHBF in years when it is profitable. The law could dictate a defined percentage of profits be allocated to the PSRHBF or require the USPS maintain a pre-funding percentage tied to private sector practice among firms that pre-fund. Or the law could require the USPS to maintain the level of funding in the PSRHBF to a level tied to best practices in the private sector – the 37% median level of funding among Fortune 1000 companies in the private sector, for example.

3) The USPS OIG proposal. The USPS Office of Inspector General offers a creative solution to the pre-funding mandate. It would repeal the PAEA's prefunding payment schedule and allow the current assets in the PSRHBF to accrue interest over time while the USPS continued to pay for its retiree health insurance premiums with operational funds. The PSRHBF would continue to grow with earned interest and would not be available to the USPS until it covered a certain percentage (to be set by Congress) of the unfunded liability. It would effectively serve as a reserve fund to cover the cost of retiree health in the future if the Postal Service could not make the payments in the future. This would provide breathing space to reform the USPS and partially address the GAO's concerns, even though it would still treat the USPS more harshly than other agencies and private companies. The proposal is outlined in a letter to Sen. Sanders reproduced as Attachment 3.

4) Cover retiree health with the fairly calculated CSRS pension. During the 112th Congress, bills offered in both the House and Senate, sought to protect future taxpayers from future postal retiree health liabilities by permitting the Postal Service to use postal pension surpluses in the Civil Service Retirement and Disability Fund (CSRDF) reported by independent audits (USPS-OIG/Hay and PRC/Segal) to cover the cost of future pre-funding. Indeed, the only-bipartisan postal bill considered by the House of Representatives (H.R. 1351) in the 112th Congress, which drew 230 co-sponsors from both parties, called for fairly and accurately measuring the Postal Service's pension surplus in the postal CSRS account of the CSRDF and transferring the surplus to the PSRHBF. That bill never got a vote in the House. In the Senate, the original bills offered by Sens. Carper and Collins (S. 1010 and S. 353) that were later combined to create S. 1789 contained similar language on the CSRS surplus. However, concerns that transferring funds from the CSRDF to the PSRHBF would present scoring problems led the senators to drop the provision from S. 1789. (The senators may have also reacted to a GAO report that questioned claims that the USPS was over-charged by the OPM for retirement costs, but the same report acknowledged that the PRC and OIG methods were "reasonable" and that the choice of methods used is a "policy decision" for Congress.)

It is crucial to reverse this legislative decision, and to address the problems that led to it, as we tackle postal reform in the 113th Congress. However, this can be done in a way that minimizes the impact on the deficit that would result from a large transfer from the CSRDF to the PSRHBF. Indeed, it may not be necessary to transfer any funds at all to significantly reduce the cost of pre-funding. This can be done in five steps:

a) In the Office of Personnel Management's annual valuation of the CSRS postal sub-account within the Civil Service Retirement and Disability Fund, mandate the adoption of modern, private sector accounting and actuarial methods called for by Accounting Standard Codification No. 715. (FASB -ASC 715, *Compensation—Retirement Benefits* from the Financial Accounting Standards Board). This was the policy recommendation of the Postal Regulatory Commission's report *on Civil Service Retirement Cost and Benefit Allocation Principles* prepared by respected experts of the Segal Company (June 29, 2010). The methods proposed by the PRC report produce a lower surplus than those advocated by the USPS OIG report on the same matter prepared by the Hay Group in January 2010, *The Postal Service's Share of CSRS Pension* Responsibility (Report Number: RARC-WP-10-001, January 10, 2010). As mentioned above, a GAO review of these reports as well as the accounting and actuarial methods currently employed by the Office of Personnel Management (OPM) concluded that all three sets of methods are "reasonable" and that the choice of methods is a "policy decision." Congress should mandate the PRC's methods because the OPM's current methods are unfair and inequitable to the Postal Service, its customers and its employees. See Chart 1, which demonstrates the inequitable allocation of pension costs resulting from the OPM's methods. It shows that the Postal Service pays 83% of the CSRS pension costs of a retiree who worked just 50% of his career for the USPS, leaving the OPM to pay 17% for the other half of the employee's career for the tax-payer supported Post Office Department.

As suggested above, mandating the PRC audit's reform recommendation had strong support in the last Congress – a majority of the House of Representatives co-sponsored a bill (H.R. 1351) and bills introduced by Senators Carper and Collins at the beginning of the 112th Congress also endorsed these methods. In addition, the Obama administration expressed its support for a CSRS transfer as part of postal reform, as explained in a letter from Director of Legislative Affairs Director Robert Nabors to Representatives Elijah Cummings and Darrell Issa on October 13, 2011. The letter is reproduced as Attachment 4, which was sent <u>after</u> the GAO report on pension allocation methods was issued.

b) In order to minimize any budget impact of mandating the use of fair actuarial methods and assumptions, Congress should repeal Section 1848(h)(2)(C) of USC Title 5, which requires the transfer of any postal pension surplus to the USPS Retiree Health Benefit Fund following valuations in 2015, 2025, 2035 and 2039. The required transfers mandated by 1848(h)(2)(C) were enacted by the PAEA in 2006. A repeal of this transfer provision would eliminate the need to amortize (with mandatory payments from the General Fund) any increase in the CSRDF's unfunded liability resulting from the transfers. (Such amortization payments are required by another provision in Title 5.)

Note: A repeal of the transfer provision would minimize any budget score associated with a policy of accurately and fairly defining the Postal Service's pension obligations and give policy-makers up-to-date and accurate information on the Postal Service's legacy costs. It makes sense because the PSRHBF will not need the surplus funds for decades – and the surplus pension funds might never be needed if Congress enacts the reforms outlined below to properly invest the PSRHBF (item 5) and to find ways to reduce future retiree health benefit costs (item 6).

c) Congress should repeal the PAEA's fixed schedule of pre-funding payments and replace it with the two-tier prefunding payments called for in the President's budget (normal cost and amortization costs), but establish a right to access the fairly calculated CSRS postal surplus in the future to cover the cost of retiree health benefits if the PSRHBF should ever be exhausted. (The 80% funding target and the immediate access to the PSRHBF to cover current retiree health premiums in S. 1789 should be retained in any new legislation.)

d) Congress should require the OPM Board of Actuaries to take the accurately measured CSRS postal surplus into account when calculating the unfunded liability for postal employee retiree health benefits, a step that would eliminate the need to make amortization payments over the next ten years or more. (In practical terms, the USPS would make a normal cost payment each year to the PSRHBF and the PSRHBF would cover the cost of current postal retiree health premiums – resulting initially in a growing PSRHBF, even before taking into account the fund's earnings.) This instruction would apply the best practice of private sector pension funds to the Postal Service. Indeed, the tax code allows companies to apply surplus pension funds to the cost of post-retirement health liabilities (see section 420 of the Internal Revenue Code).

e) In order to address misleading claims that reforms such as those described above represent "taxpayer bailouts," Congress should adopt the Statutory PAYGO reforms proposed by the Obama administration. The President's budget proposes to amend the PAYGO act to treat the transactions of the Postal Service Fund as "budgetary effects," thereby measuring Postal Service transactions on a unified budget basis for PAYGO purposes.

5) Invest the PSRHBF in the Thrift Savings Plan. The PSRHBF is unique in the federal government. No other agency has a retiree health fund. Although it differs from so-called VEBA plans (Voluntary Employee Benefit Associations) in the private sector because retired postal employees are guaranteed retiree health benefits by the FEHBP law even if the balance in the PSRHBF goes to zero, it is very similar to such plans since its assets are dedicated to cover benefits for a specific group of people with a tie to a single employer. In this case, the PSRHBF is dedicated to pay the Postal Service's share of health insurance premiums for retired postal employees -- starting in 2017.

Unfortunately, the PSRHBF is invested solely in low-yielding Treasury securities – and given that long-term health care costs are expected to grow faster than the interest rates payable by Treasury securities for the foreseeable future, the unfunded liability will almost certainly keep growing over time. No VEBA in the private sector would invest its assets so conservatively, especially since the annual cash requirement for the PSRHBF ($3 billion per year) is a fraction of the $45 billion in assets.

In an ideal world, the PSRHBF would be held on the Postal Service's books and invested appropriately (in a properly diversified portfolio of stocks, bonds, real estate, etc. overseen by a professional investment manager) to minimize the PSRHBF's unfunded liability – and therefore minimize any amortization payments from the USPS in the future. Transferring the PSRHBF to the off-budget Postal Service might present budget scoring problems (unless the budgetary effects proposal outlined above is adopted) and the Treasury Department has traditionally opposed the investment of government trust funds in private securities.

However, NALC believes there is a way for the PSRHBF to earn higher, private sector-based returns without moving it from the OPM's books – which should reduce the federal deficit. The PSRHBF could be invested in the index funds offered by the Thrift Savings Plan. The Federal Retirement Thrift Investment Board already invests a pool of nearly $300 billion of federal and postal employee retirement savings in these funds – so investing the funds of the PSRHBF, which also holds assets dedicated to post-retirement benefits, would not be setting a new precedent. The TSP's Lifecycle 2040 Fund has earned an annual return of 5.0% since its inception in 2006, much greater than the 2-3% returns paid lately on Treasury bonds.

6) <u>Give the Postal Service and its unions the ability to reduce retiree health costs within FEHBP</u>. NALC and its members are willing to do our part to reduce the cost of future retiree health benefits at the bargaining table if Congress treats the Postal Service, its employees and the mailers fairly on pension costs. The best way to reduce the pre-funding burden on the Postal Service is to reduce the cost of health insurance in general, and retiree health insurance in particular.

Generally, the OPM and the FEHBP program have done a relatively good job in controlling health care costs. Indeed, the federal government's health care costs are lower than those of other large employers in the private sector, and the FEHBP program has restrained health care inflation better than employer plans in the private sector. Nevertheless, there is more that could be done to reduce health care costs – which could reduce the cost of prefunding retiree health benefits.

The Postal Service has asked Congress to let it leave the FEHB Program and set up its own health care program. The postal unions, including the NALC, oppose leaving

FEHBP. But most of the savings the USPS thinks it can achieve outside of FEHBP could be achieved inside of FEHBP -- if the USPS and its unions were allowed to negotiate an exclusive set of FEHBP plans to be offered to postal employees and future postal retirees (current postal retirees should keep the plans they have). This 'postal FEHBP exchange' could work with OPM to implement health plan innovations to incentivize good health and require the use of single network providers for medical services, hospital care and prescription drugs in order to cut costs. In addition, the 'postal FEHBP exchange' could achieve improved integration with Medicare and seek permission from OPM to implement a private sector-style Employer Group Waiver Plan (EGWP) to bring down the cost of drugs. Lower retiree health costs would translate into lower pre-funding payments.

It is urgent that Congress take action to repeal or reform the pre-funding mandate. We cannot imagine any member of the House, regardless of party or ideology, who would accept such a mandate being applied to a single private sector employer in his or her district. Yet because it is applied to a federal agency, it is ignored. But the negative impact it has on the Postal Service is hurting the entire postal industry. Of the eight million workers in our industry, just over a half-million work for the USPS. The vast majority of the workers in our industry work in private companies across the country. The pre-funding mandate is not just dragging the USPS down; it's weakening an entire industry that employs workers in every community in the country.

III. Six-day Last Mile Delivery is the Postal Service's Core Function

The core competence and core asset of the Postal Service as an enterprise is its unmatchable, six-days-per-week, last-mile delivery network. It is a strategic asset that must be protected to return the Postal Service to health. It should not be sacrificed to maintain the disastrous pre-funding policy introduced in 2006. Congress should follow the lead of the U.K. government's postal regulator, Ofcom, which concluded in March that six-day delivery should remain part of the Royal Mail's universal service obligation.

Therefore, we urge the Committee to mandate six-day delivery in the law – and remove the possibility that Congressional appropriators might inappropriately seek "unified budget" savings by eliminating the six-day requirement even though the USPS receives no taxpayer money – a mistake the Obama administration made when it proposed to end Saturday delivery in its proposal to the Super Committee created by the Budget Control Act of 2011, and which it repeated in the past three budgets.

The Postmaster General has put forth a number of flimsy arguments in support of his five-day mail delivery proposal, even as he has failed to be fully forthcoming on the job losses his plan will entail. I wish address these arguments and note our concerns about jobs next.

First, the PMG's claim that the proposal would save $2 billion annually is clearly false. The PRC found in 2011 that the Postal Service's original five-day delivery plan, which did not involve the delivery of any packages or prescription drugs, would save at most $1.7 billion, even though that figure dubiously assumed almost no loss of mail volume due to reduced service. The Postal Service had claimed that its plan would save $3.1 billion. It made this claim even though its own consultant, Opinion Research Corporation (ORC), concluded that the combined impact of slower service standards from its network optimization plan (involving mail processing plants), post office closings and the end of Saturday delivery would reduce total mail volume by 7.7 percent and result in a loss of $5.3 billion in revenues. A loss of revenue exceeding the $3.3 billion in cost savings estimated by ORC would result in a net loss of $2.0 billion. These findings, based on 2010 data, were not shared with the PRC during its review of the five-day plan or its review of the network optimization plan. When the findings were discovered in 2012, the Postal Service dubiously disavowed them as "flawed" – though ORC has never disavowed its work. See Attachment 5, which provides a summary estimate of the impact of the planned service cuts on mail volume and postage revenue. It was introduced as an exhibit in the PRC proceeding by the American Postal Workers Union.

The Postal Service's own market research shows at least a third of business mailers value Saturday delivery (see below), including the weekly newsmagazine and newspapers that absolutely depend on it each week. Cutting Saturday delivery will drive periodical and advertising mail away (direct marketers will switch to delivery with newspapers) and make things worse, not better. As we learned in recent media reports, the Dow Jones company has already started to move Saturday deliveries of *The Wall Street Journal* to other delivery companies in anticipation of the Postal Service's move to end Saturday delivery. *New York* magazine and *The Economist* magazine have done so as well. *Bloomberg Businessweek* recently announced plans to do the same. Indeed, the Association for Magazine Media has criticized the move to five-day delivery. And while the trade association for many advertising mailers has not taken a position on Saturday delivery, many individual companies like Valasis Inc. (one of the nation's largest direct mailers), Hallmark and e-Bay oppose the change. The savings the Postal Service claims would be overwhelmed by the loss of revenues. At a minimum, the Postal Service should submit its new five-day plan for review by the PRC before Congress decides this matter.

Second, the Postmaster General falsely claims that the move to five-day mail service will not slow the delivery of mail. That is preposterous. The PMG admits that mail in collection boxes won't be collected on Saturdays and that mail will not be sorted to delivery point sequence on Friday nights. By definition this will slow the mail for American mailers – collection box mail will be delayed a day and mail destined for P.O. Boxes not sorted on Friday nights won't be in those boxes on Saturdays. When there is a federal holiday, the mail will be delayed even further. Slower service will drive business away, reducing revenue and driving the Postal Service to make even more self-defeating service cuts.

Third, the Postmaster General claims the USPS's customers are supportive of this change, citing so-called "market research." Specifically he says: "Market research shows that seven out of 10 Americans support five day delivery." Not only is that statement incomplete, it's grossly misleading. Public opinion polls are not market research. The results are not surprising when the folks polled are misleadingly told that the elimination of Saturday delivery is essential to save the Postal Service and are not told that the main cause of the Postal Service's losses is the pre-funding burden. Indeed, those polled are typically given a choice between the elimination of Saturday delivery and/or higher postage rates or closed post offices -- the option to end pre-funding is never offered. Moreover, polling the recipients of mail misses the point – the vast majority of mail (90-95%) is generated by businesses for households (including business reply envelopes used by consumers to pay their bills). Although city carriers feel strongly that we serve the public, the vast majority of paying customers of the Postal Service are business mailers. Their views on Saturday delivery are critical.

A 2009 survey of 4,100 businesses conducted by the USPS and the Mailers technical Advisory Committee (NMTAC) found that 32% of them opposed the shift to five-day. Another 2009 survey of 1,144 small businesses (less than 250 employees) for the USPS by the Maritz Company found that 68% supported the plan – meaning that up to 32% didn't. There are more than 25 million businesses of all sizes in the United States. If a third of these businesses oppose the plan, as the Postal Service's own surveys show, then literally millions of businesses will suffer from the Postal Service's plan.

Members of the Committee should not blindly follow uninformed public opinion when it comes to Saturday delivery. Of course, in electoral terms, 7 out of 10 Americans is a landslide. But in business terms, failing to serve 1 out of every 3 customers is a prescription for bankruptcy. How can the Postal Service succeed if they cut a service – Saturday delivery – that millions of business customers need? And if a substantial number of those spurned business customers find alternatives or reduce their volume of mail, how can the majority of customers who claim to support the plan not face even further cutbacks and/or higher prices from the Postal Service? If that happens, 100% of Americans would be hurt and 100% of American businesses would suffer. The bottom line is clear: The Postmaster General's five-day plan is an anti-business plan that is not in the public's interest either.

Fourth, and most outrageously, the Postmaster General told reporters on February 6 that the employees of the Postal Service support his five-day delivery plan, basing it on the random conversations he has had with employees in post offices over the past year. Worse, he misleadingly implied that I personally accepted the plan and that "letter carriers" support his plan. This is pure nonsense and totally untrue. City letter carriers overwhelmingly oppose this plan. I know, I was elected to my job by them, and more than 90% of them voluntarily belong to NALC. Other postal employees feel the same way. All four postal employee unions issued statements on February 6th opposing the PMG's plan. Congress should know that the PMG does not speak for all postal employees.

Fifth, the Postmaster General claimed that he listened to his customers and altered his original five-day plan to provide Saturday delivery of packages, including the delivery of prescription drugs. While we are heartened that the PMG would listen to his customers, we wonder why he won't listen to the millions of businesses that value Saturday mail and periodical delivery as well, and we are concerned that the PMG will risk our recent gains in package delivery market share by adopting his plan. The PMG proudly cites the 14% growth in package volume in recent years. And in the first quarter, the USPS reported a 19% growth in revenue from Parcel Return and Parcel Select, the services private delivery companies use to take advantage of the Postal Service's first- and last-mile capabilities. Indeed, in its press release announcing the first quarter results, the Postal Service cited the "comparative advantage" of its last mile delivery network as the driving force behind its strong growth in package delivery.

But that growth and that comparative advantage have been built on a shared, multi-product, last-mile delivery network. By delivering letters, flats, and parcels together, the cost of USPS package delivery has been kept quite low. How will the Postal Service remain the most affordable provider of package delivery to residential neighborhoods if it gives away this pricing advantage? Economists call this the economies of scope. Will the Postal Service's plan recklessly throw away these economies just when the e-commerce boom is gaining momentum? How much business will we lose from FedEx SmartPost and UPS SurePost by eliminating Saturday delivery? Will new competitors emerge to offer Saturday delivery service for newspapers, direct mail and flats that will cause even more volume loss? We believe the answers to these questions will make it very clear that the elimination of Saturday mail delivery makes no business sense.

Finally, on the Saturday delivery issue, the Postmaster General has not been entirely forthcoming with Congress or the public on the negative employment impact his plan will have on the U.S. economy. In his press conference, he said that the plan would eliminate 22,500 jobs. But his press materials make reference to 35,000 full-time equivalent jobs. Back in 2010, when the plan was first formulated, the Postal Service met individually with the four unions and provided the following estimates of job losses for the plan to cut Saturday mail delivery: 25,846 full-time city carriers, 53,240 full- and part-time rural carriers, 2,250 clerks and other employees in APWU crafts, and 450 mail handlers for a total of 81,786 full- and part-time jobs. As we saw with the suppressed evidence during the PRC proceeding on network optimization, the Postal Service doesn't really know how much, if any, savings will result from all their service cuts. Based on the constantly shifting numbers on jobs, it doesn't seem to know how many jobs are at stake with its proposed elimination of Saturday mail delivery. The Postal Service is not being straight with the Congress or the public. This must change.

Fortunately, the support for Saturday delivery remains very strong in the House of Representatives. Rep. Sam Graves has introduced a sense of the Congress resolution supporting the continuation of six-day delivery service. That bill, H. Res 30, now has 170 co-sponsors from both parties. We hope this Committee will embrace the spirit of H. Res 30 in the postal reform legislation it drafts this year.

IV. Pricing and products reform

In the absence of the pre-funding mandate, the introduction of a streamlined system of rate regulation would have made a lot of sense in 2006. Replacing the costly and time-consuming system of setting postage rates through months of expensive litigation between competing sets of mailers was a laudable goal. Unfortunately, the Congress saddled the Postal Service with a huge new mandate at the same time it implemented the price cap on its rates. The cost of the pre-funding mandate was never built into the Postal Service's prices because the USPS did not conduct the one-time, final omnibus rate case called for in the PAEA. (The USPS rightly did not want to raise rates in the midst of the recession.) Even without the crushing burden of pre-funding, the cost of mail delivery on a unit basis was bound to rise as internet diversion reduced mail volume, but the Postal Service cannot charge mailers the true cost of delivering the mail. This pricing regime is not sustainable and is contributing to the mindless downsizing that threatens to destroy a key part of the nation's economic infrastructure.

At a minimum, the Postal Service should be given the right to adjust its rates with a one-time proceeding before the Postal Regulatory Commission. The omnibus postage rate review and adjustment that was authorized by the PAEA, but that did not happen in 2007, should be conducted in 2013. If Congress insists on the prefunding mandate, then it is only fair that at least some of its cost should be built into the postage rates the Postal Service charges its customers. Such a one-time rate case proceeding is needed to provide reasonable balance to the huge sacrifices postal employees have made in recent years.

But in addition, the Postal Service must be able to generate greater revenues to balance the cost-cutting it will continue to pursue. No struggling enterprise can mindlessly downsize its way back to health. It must have a growth strategy and be able to generate new revenues. There are three ways that the Postal Service can increase revenue: grow the existing business in sectors of the mailing industry that are expanding (package delivery, returns and e-commerce), better align prices to reflect costs (pricing reform), and find new uses of the Postal Service's networks that can help finance and preserve the valuable last mile delivery networks that the country depends on for commerce, communication and voting. The USPS is already doing the first and will continue to succeed so long as it does not destroy its own comparative advantage by degrading its last-mile network. But Congress must enact reforms to help USPS increase revenues in the second and third ways.

First, on pricing reform, the case can be made to eliminate the price cap altogether, as the regulator in Great Britain has done recently. Postal operators no longer have the ability to abuse their monopolies -- there is an electronic or physical alternative to every service they provide. The USPS has no market power whatsoever -- if it raises rates too high, customers will leave the mail system. There is market discipline in place. On the other hand, mailers legitimately want some protection against capricious rate increases. But the USPS needs greater flexibility to set rates that will cover its costs.

The reforms proposed by President Obama are a good start, but the price index system for market-dominant products must be updated and must be based on an appropriate benchmark index. The Consumer Price Index for All-Items is not the most appropriate index. The Postal Service is part of the national delivery industry, a transport-based, energy-intensive industry that has unique characteristics. Although the USPS is by definition more labor-intensive than private companies like FedEx and UPS – we deliver to 152 million addresses six days a week, not 15 million addresses five days a week – the USPS faces the same cost pressures as those companies. At a time of soaring energy costs, the rates charged by private companies that provide delivery services have increased at more than twice the rate of postage -- see Table 2 above. If the USPS is to preserve its networks, it must be given pricing flexibility. Congress should modernize the price indexing system and replace the CPI-All Items with the CPI for Delivery Services. It is the appropriate private sector benchmark and it will help with the budget scoring on the legislation.

Second, on products, the overly restrictive definition of a postal product contained in the PAEA should be liberalized. The reforms proposed by Rep. Peter Defazio's postal reform bill (H.R. 630) show the way. Opening the mail to beer and wine sales also makes sense. But the range of services the Postal Service could provide is much greater and it should be given the right to find new uses for its networks. Whether its meter reading for utility companies as an alternative to expensive smart meters, or partnerships with private banks to serve Americans in rural and depressed urban areas where commercial banks have no presence, or recycling computer parts in partnership with private companies, the Postal Service needs greater commercial freedom. We believe an innovation commission as proposed by H.R. 630 could reveal a wide range of possibilities. That commission should study the possibility of using the nation's post office network as the backbone of a National Infrastructure Bank, and Congress should consider giving every American the right to vote by mail in federal elections. A more entrepreneurial Postal Service could do what the Post Office has done since it was mandated by the Constitution -- evolve to meet the changing needs of the country. But to achieve a more entrepreneurial culture, the governance structure of the Postal Service needs to be reformed. I will turn to this topic next.

V. Governance reform

At a moment when the Postal Service faces the gravest crisis in its history, its Board of Governors might soon be known as a Board of Vacancies. The Board of Governors is made up of nine presidential appointees, plus the Postmaster General and the Deputy Postmaster General. At the moment, four of the nine appointed seats are vacant and one governor is in his one-year hold-over period following the expiration of his term. The gridlock that has hampered the appointment process in general has really damaged the Postal Service in particular. When you consider that the terms of two of the five commissioners on the Postal Regulatory Commission have also expired, the appointments problem is even deeper. But what truly makes the problem a crisis is that the PAEA's guidelines for appointments to the Board have not been followed.

The PAEA amended the law to require that "at least 4 of the Governors shall be chosen solely on the basis of their demonstrated ability in managing organizations (in either the private or the public sector) that employ at least 50,000 employees." Although all of the governors who serve are honorable people, this policy has not been followed. As our advisers at Lazard reported to us, the Postal Service lacks a Board with the kind of business experience needed to create a vision for a revitalized Postal Service – nor does it have the kind of executive talent needed to execute such a vision. Instead, the Board has approved the "shrink to survive' strategy that Lazard believes is doomed to fail.

NALC calls on Congress to overhaul the governance structure of the Postal Service to give it the best chance for a turnaround. NALC will work with any leadership team that develops a strategy for growth and is dedicated to the long-term viability of the Postal Service.

VI. Addressing the Cash Crisis: Return of the FERS Pension Surplus

The reforms we have advocated in this testimony are essential to the survival of the Postal Service well into the 21st Century. But we also face a short-term solvency crisis. The prefunding mandate, the Great Recession, and the misguided business plan of current postal management have left the Postal Service desperately short of cash. If the Postal Service had been allowed to follow private sector practice on prefunding, it losses in recent years would have been manageable, its cash position stronger, and its ability to adapt would remain intact – and it would still have more funds set aside for future retiree health benefits than most private sector companies. Instead, it has exhausted its borrowing authority and its management has pursued reckless cost-cutting in a crisis environment that is surely driving business away.

In order to prevent an economically damaging interruption of service and to give the reforms outlined below the time they need to work, Congress must also restore the liquidity the Postal Service needs to operate. Fortunately, there is a surplus in the Postal Service's FERS pension account that nobody disputes. Due to falling discount rates, that surplus declined from

$11.4 billion in 2011 to $3.0 billion in 2012. But if returned to the Postal Service, it is still enough to pay down its debt and maintain operations as it implements other reforms to restore its viability. Congress should change the law to allow for this transfer from the FERS postal account in the CSRDF to the Postal Service.

Note, however, that the actual surplus in the postal FERS account would be much larger if measured properly, according to a recent report from USPS Office of Inspector General prepared by The Hay Group. The report, entitled *Causes of the Postal Service FERS Surplus* (Report Number: RARC-WP-13-001, October 12, 2012), found that if the OPM were to use USPS-specific economic, demographic and mortality assumptions in its annual valuation of the FERS postal sub-account within the Civil Service Retirement and Disability Fund, the actual surplus would have been $24.0 billion in 2011. A subsequent update to the report released on December 4, 2012 (RARC-WP-13-002) incorporated the OPM's lower interest rate assumptions for 2012 – and therefore reduced the OIG's estimated surplus to $12.5 billion.

The use of USPS-specific assumptions increases the measured FERS surplus because the Postal Service's work force is different than the rest of the federal workforce; its employees are a distinct group with markedly different demographic and mortality characteristics. Historically, salary increases in the Postal Service have lagged those in the federal government overall and life expectancy among mainly blue collar postal employees is less than it is, on average, for mainly white collar federal employees. A fair valuation of the postal sub-accounts requires the use of USPS-specific assumptions.

Rep. Stephen Lynch, the ranking member of this Committee's postal subcommittee, has drafted legislation (H.R. 961) that directs the OPM to use accurate, postal-specific assumptions and the resulting FERS surplus of $12.5 billion should be used to stabilize the Postal Service's finances as other reforms are put in place. A transfer of the FERS postal surplus would set the stage for a major turnaround at the Postal Service, provided that the reforms outlined above are enacted and the Congress prevents current postal management from driving America's Postal Service into a death spiral.

VII. Conclusion

It is our sincere hope that this Committee will hold other hearings on the issues we have raised in our testimony. Many of the proposals we have made are addressed in one form or another in H.R. 630, the postal bill introduced by Rep. DeFazio. We urge this Committee to give the bill serious consideration as you begin the process of drafting reform legislation. NALC is committed to working together with both parties to fashion a bi-partisan reform bill that will preserve a strong and vibrant Postal Service for decades to come. Thank you for considering our views.

Attachment 1:

Delivering the Future:

How the G20's Postal Services meet the challenges of the 21st century

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Executive Summary

The very existence of the legions of postal service workers and thousands of postmen, sorting depots, post offices and mail vans is today under threat in many developed countries. Instant, electronic communications are displacing the material exchange of documents at a rapid pace, while e-payments are supplanting physical commercial exchanges of cheques or postal orders. While only 1% of the population in Asia-Pacific lacks access to postal services and 94% has home mail delivery, will basic economics allow this in the future? Will the expansion of broadband internet across the world spell the end for the postal empires?

Delivering the Future is a comprehensive report that establishes new structural performance metrics to better understand the effectiveness of national universal postal service providers (USPs) in the G20 group of the world's wealthiest nations. It provides a new benchmark to measure USPs delivery of national socio-economic benefit, defining their present and future utility and social value.

The ranking tables are based on three criteria using multiple secondary datasets, judged to provide the best measures of the USPs' structural strengths:

1. Provision of Access to Vital Services –enabling the participation of all communities in political society and the economy

2. Operational Resource Efficiency – the efficient management of human resources

3. Performance and Public Trust – public approval through effective performance

The report shows that, while there are multiple reports of the imminent demise of the Universal Postal Service Provider, USPs currently retain their key role in the provision of an essential communications infrastructure in all countries, in some cases against a backdrop of declining mail volumes and cuts to postal offices and delivery staff.

The United States Postal Service's top ranking belies its inability to raise its own finance or move into new non-mail sectors, its debt position and the rapid shift towards electronic communications. It has achieved its ranking by being highly efficient in its core function – the delivery of mail.

USPS delivers twice the mail volumes per full-time delivery employee of any other postal operator.

The report finds that developed countries top the rankings of the world's best USPs. Japan Post and Korea Post perform well on all measures, while Australia Post is strong on efficiency and access. Deutsche Post, the only USP in the G20 to have been fully privatized, is the front-runner in the four European Union states, and also the best improved in the developed countries. France's La Post scores highly on access and performance, having improved markedly between 2007 and 2010.

In emerging markets, USPs are fast catching up with those in the developed world. This reflects not only the growth of their economies, but also the clear belief among regulators that universal postal service provision has a key role to play in their developing infrastructure.

Corrieos Brazil is the best placed of these, with mid-table performance on all metrics, and a high rate of improvement, followed by Russia Post among the BRICs. Russia Post has shown a faster rate of improvement in performance than all of the developed countries, in particular on parcel delivery efficiency.

Other key findings:

- For many remote customers, especially in emerging markets, the post office is the only viable means of receiving or sending goods, and of engaging in e-commerce, whether P2P (person-to-person) or with an e-tailer
- Japan Post and France's La Poste lead on key performance measures reflecting public trust in the service. Turkey's PTT was the most improved while Russia Post was the fastest improving in the BRIC countries
- Between 2007 and 2010, only one developed country USP among the G20 reduced its postal office network significantly – the UK's Royal Mail. Most developed country networks stayed relatively static in numbers while Correios Brazil's expanded 55% to 10,278 outlets, following the acquisition of franchises
- Korea Post and Japan Post lead the world in the efficiency of parcel deliveries, while sizeable declines in efficiency were seen at France's La Poste, the UK's Royal Mail, Correo Argentina, Italy's Poste Italiane and Saudi Post – due to competition from commercial providers

- In letter delivery, the USPS reigns supreme, delivering close to twice as many letters per delivery employee as its closest competitor. Meanwhile significant declines in delivery efficiency were seen at Japan Post, Correios Brazil, Italy's Poste Italiane and the South African Postal Office – indicating a lack of workforce re-adjustment

<u>The Best-Performing Universal Service Providers in the G20</u>

Rank	USP (Ranking by Improvement)	Country	Citizens per PO	Letters per delivery employee	Parcels per delivery employee	2010 WEF Postal Service Efficiency
1	***USPS (14)***	***USA***	***8,409***	***268,894***	***2,633***	***6.4***
2	***Japan Post (17)***	***JP***	***5,213***	***103,149***	***7,975***	***6.8***
3	***Australia Post (15)***	***AUS***	***5,573***	***166,776***	***6,633***	***6.3***
4	***Korea Post (6)***	***SK***	***4,065***	***41,082***	***8,919***	***6.3***
5	***Deutsche Post (11)***	***DE***	***6,085***	***47,670***	***4,476***	***6.4***
6	Royal Mail (16)	UK	5,146	121,418	845	5.7
7	La Poste (12)	FR	3,638	67,868	1,184	6.6
8	Canada Post (13)	CA	1,616	33,420	1,184	6.4
9	Correios Brazil (2)	BR	10,278	72,384	526	5.9
10	Russia Post (4)	RU	3,484	4,295	377	4.7
11	Poste Italiane (19)	IT	4,227	41,263	162	4.2
12	PTT (1)	TU	20,375	37,384	230	5.4
13	Correo Argentina (5)	AR	8,910	37,782	611	3.8
14	SP Mexicano (3)	MX	13,627	117,707	45	3.0
15	India Post (10)	IN	7,651	15,956	438	5.2
16	Pos Indonesia (9)	IND	11,836	18,679	2,747	3.9
17	South African PO (18)	SA	19,871	33,420	1,184	3.1
18	Saudi Post (7)	SAU	39,275	38,196	48	4.9
19	China Post (8)	CN	24,828	8,810	503	5.6

Attachment 2:

The United States Postal Service

Delivering Change to Revitalize an American Icon

The United States Postal Service (the "Postal Service") has played a vital role in our nation's commercial and social fabric for over 250 years. Yet today, it faces an acute financial crisis. Indeed, by its own estimates[a], the Postal Service projects that it will run out of cash by sometime this summer or early fall.

In response, the Postal Service has released a "Plan to Profitability" designed to eliminate its large projected operating losses. While this Plan does contain certain credible ideas, its underlying strategic vision is fundamentally flawed. The core idea behind the Postal Service's plan can be summarized as "shrink to survive" – with significant reductions in service and delivery coverage and the elimination of hundreds of thousands of jobs. This strategy undermines the Postal Service's key strategic asset – its unparalleled last-mile delivery network that touches 150 million homes and businesses six days each week. In Lazard's experience, based on our long history of advising on many of the country's most significant restructurings (and many others around the world), we believe that the current Postal Service plan will not create a sustainable enterprise. A business plan based on degrading your greatest strength is not likely to be a path to success.

While the Postal Service clearly faces enormous challenges, we do believe that its revitalization is achievable. To do so will require a comprehensive plan premised on shared sacrifice by all stakeholders, a strategic vision that leverages the strength of its network and supportive legislative action. The Postal Service that results from these changes will have fewer employees, but will enhance (rather than degrade) the quality and value of the essential services it provides to millions of households and American businesses. Similar to any successful private sector restructuring, the Postal Service requires a business plan based on a fundamental rethinking of the institution, top-to-bottom changes in its operations and culture and a first-rate management team and corporate governance structure to ensure that the plan is effectively executed.

The "Plan to Profitability"

In February 2012, the Postal Service publicly released its "Plan to Profitability – 5 Year Business Plan" (the "Business Plan"). The Business Plan is based on certain assumptions regarding general macroeconomic conditions, overall demand for postal products and a set of specific initiatives that the Postal Service intends to pursue. Many of these assumptions, including the overall demand for postal products and the continuing secular decline of first class mail, appear reasonable and generally consistent with recent experience. According to the Business Plan, these trends, coupled with the

(a) Consistent with Lazard's obligations under its non-disclosure agreement with the Postal Service, all of the factual statements contained herein are based on the public statements and disclosures of the Postal Service, including its public financial statements, the public testimony of its leadership and the "Plan to Profitability – 5 Year Business Plan" publicly disclosed by the Postal Service on February 16, 2012, and other public documents. In connection with its work, Lazard has also met with and/or interviewed outside postal experts and users of Postal Service products and services as well as conducted its own independent financial analysis of the Postal Service based on its public statements and disclosures.

required pre-funding of future retiree health benefits at over $5 billion a year, will result in projected losses of over $80 billion during the forecast period, including a loss in the final year (2016) of over $20 billion.

The Business Plan proposes a number of strategic initiatives designed to restore the Postal Service to near-term solvency including:

- **Return of the Postal Service surplus in the FERS federal pension system**
- **Repeal of current legislative requirements that the Postal Service "pre-fund" obligations to the Retiree Health Benefit Fund (estimated 2016 annual savings: $5.8 billion)**
- **Reduction of service standards and other changes associated with sorting and transporting mail (estimated 2016 annual savings: $4.1 billion)**
- **Significant changes in the way that mail is delivered to U.S. households, including dramatically expanded use of curbside and centralized delivery (estimated 2016 annual savings: $3.0 billion)**
- **Elimination of Saturday delivery (estimated 2016 annual savings: $2.7 billion)**
- **Various "retail" initiatives, including the elimination of post office branches (estimated 2016 annual savings: $2.0 billion)**
- **Health care benefit reform (approximately $1.5 billion of estimated annual savings)**

Based on the Business Plan, these proposed initiatives, together with the refund of the FERS surplus show, on paper, that the Postal Service returns to profitability by 2016.

Delivering Change to the Postal Service

Areas of Common Ground

As noted above, we are skeptical of the Business Plan's unitary focus on cost cutting and a "shrink to survive" approach. That said, certain of the proposed initiatives, if they were a part of a more balanced and comprehensive plan, may make sense. For instance, the current legislative requirement that the Postal Service pre-fund its retiree health obligations is both financially punitive and entirely inconsistent with accepted practices within the private sector. The Postal Service has pre-funded over $21 billion in retiree health obligations over the past five years – funds which could have been used for investments in new services, technology, and operational restructuring initiatives. Similarly, refunding the billions of dollars of Postal Service surplus that is currently contained in the FERS pension fund seems reasonable based on third-party actuarial analysis. Enacting legislation that provides for these changes appears both appropriate and financially prudent as part of a broader plan of shared sacrifice. If properly structured, the changes to the Postal Service's health care plans also appear reasonable. Changes to the postal network, if done in a way that maintains its overall strength and balanced with revenue initiatives in a comprehensive plan, should be examined as well.

Leveraging the Strength of the Network

In our experience, we have not seen a business plan that uses reductions in service and product quality as the cornerstone of a successful turnaround. The Postal Service's proposed modifications – termination of Saturday delivery, a significant curtailment of "to the door" delivery and other reductions in service standards – could easily reduce demand by an amount equal to the alleged cost savings being discussed. In fact, one of the Postal Service's own witnesses at a Postal Regulatory Commission hearing on its network optimization plan recently acknowledged the existence of a study that found that the combined effects of all service cuts under consideration would reduce mail volume by over 10% – an amount which would offset most of the proposed savings from these initiatives.

Fundamentally, we believe that a successful restructuring of the Postal Service must start with a plan to better leverage its unrivaled last-mile delivery network – a retail network that touches every city, town and neighborhood in America. Instead of focusing on shrinking its network and capabilities, the Postal Service needs an ambitious rethinking of its business model. For example:

- **Better leverage last-mile delivery to grow the parcel service business**
  - Despite ever-increasing online retail purchases by consumers and rapidly growing e-commerce, the Business Plan assumes that volumes associated with "Shipping Services & Other" (i.e., parcel services) will actually *decrease* from 2011 to 2016. Assuming only modestly more aggressive growth targets for the Postal Service's parcel delivery business – consistent with implementation of a more forward- looking approach to sales, marketing and overall management of the Postal Service's parcel business – could result in substantial incremental revenue and profits.
  - Moreover, given the unparalleled strength of the Postal Service's last-mile delivery network, we believe the Postal Service could be exploring new and innovative delivery services that may add value for its customers. For example, the Postal Service expects to offer full "track and trace" capabilities by the end of 2012. This could provide the Postal Service with the opportunity to add, among other things, more competitive ground and expedited products comparable to those that have been successful in the private sector. The Postal Service has also begun to test new mail products such as saturation mail and the expansion of direct mail offerings to small business customers. These initiatives are a start but will require far more aggressive roll-out and many more such ideas to better leverage the Postal Service's last-mile advantage.
- **Explore expansion of services that the Postal Service can provide**
  - The Postal Service operates under constraints imposed on its business by the Postal Accountability and Enhancement Act of 2006. In the interest of ensuring that the United States has a postal institution that is self-sustaining and capable of fulfilling its public mission, we believe that the Postal Service and policymakers must consider expanding the

products and services that the American people would most value. Most leading postal services in the world (and their governments) have embraced some level of business diversification in a manner that is consistent with the postal mission but adequately protective of the private sector. In Germany, for instance, the postal service has privatized and expanded into businesses such as logistics and freight forwarding. And in the United States, as recently as the late 1960s, the Postal Service operated a postal savings system that provided depositories for working class citizens and immigrants accustomed to similar programs in their native countries.

- **Consider modifications and greater flexibility to pricing of products**
  - Notwithstanding a geographic footprint that is considerably more dispersed than other countries, the Postal Service provides Americans with unparalleled last-mile delivery service of both first class mail and parcels. With respect to first class mail, the Postal Service offers Americans among the most affordable postage rates in the world – significantly lower than comparable foreign posts[a] and indexed at a rate of inflation considerably lower than the distribution cost index that its private-sector competitors use to adjust their own pricing. With respect to Postal Service parcel products, many offerings (both market dominant and competitive) are priced in a manner that frequently ignores the highly dynamic and fluid nature of the modern parcel delivery business. In the context of shared sacrifice and development of a truly comprehensive business plan, we believe that adjustments to the pricing of regulated products and greater flexibility in the pricing of unregulated products are variables that merit further evaluation.

Senate Bill S. 1789 Is a Stop-Gap, Not a Solution

Lazard's review of the "Plan to Profitability" also included the review of various legislative proposals, including the most recent Senate bill S. 1789, the 21st Century Postal Service Act. S. 1789 is a well-intentioned proposal that may allow the Postal Service to survive for a few more years but it does not address its fundamental challenges. It accepts the Postal Service's business model when a fundamental re-thinking is what is required.

In private sector restructurings, successful turnarounds are generally premised on (i) a strategic plan that aims for a sustainable and viable enterprise and (ii) a management team and governance structure that is capable of executing that plan. Those two elements are developed first and then the necessary capital is secured. Unfortunately, this legislation provides the Postal Service with capital without either of these two elements being in place. Even worse, by adopting the Postal Service's proposals to reduce the quality and value of the services it provides to American households, it may actually accelerate the Postal Service's decline.

(a) In Canada, for instance, the current cost of a first-class stamp is $0.61/stamp (over 35% higher than the U.S.). In the United Kingdom, it is $0.72/stamp (60% higher than the U.S.). In other Western countries the current cost per first-class stamp is even higher.

There is little in the proposed legislation that addresses potential expansion of services, more flexible product pricing or necessary changes to the Postal Service's oversight and governance – all key elements of a comprehensive plan to create a sustainable and viable Postal Service.

S. 1789 also continues, albeit in a slightly modified form, the requirement to pre-fund retiree healthcare obligations and does not address the substantial and independently verified CSRS surplus which the Postal Service is owed. In this respect, S. 1789 deviates fundamentally from prior proposed legislation – S. 1010 and S. 353 (authored, respectively, by Senators Carper and Collins), both of which provided for the recalculation of surplus retirement funds in the Postal Service's CSRS account and the transfer of that surplus in order to defease the unfunded liability for future retiree health benefits and permanently end the retiree health pre-funding requirement. Recent independent audits of the postal sub-account of the CSRS conducted by respected private-sector employee benefits firms (The Hay Group for the Postal Service's Office of the Inspector General and the Segal Company for the Postal Regulatory Commission) each concluded that the pension allocation methods used by the Office of Personnel Management implied a postal surplus of between $50 and $75 billion. In an October 2011 report, the General Accounting Office stated that each of the pension accounting methodologies – Office of Personnel Management's, The Hay Group's and Segal Company's – were "reasonable" and indicated that the choice of which accounting method to use was a "policy decision" for Congress.

We believe the Senate should make that policy decision and adopt the more modern, private-sector methods used in The Hay Group and Segal Company audits. Otherwise, it should suspend the pre-funding mandate until a new business model for the Postal Service can be developed. As drafted, the proposed S. 1789 does neither.

From our perspective as private sector restructuring professionals, S. 1789 is not a proposal that provides a roadmap to long-term postal viability. It is a stop-gap measure that facilitates the Postal Service's "shrink to survive" plan. The Postal Service requires legislative relief and such relief may well be in support of a business plan that includes reductions in headcount and labor costs. But the plan must also be based on the vigorous pursuit of new revenue opportunities, the expansion of services, pricing flexibility and strategies that leverage, not impair, the value of the last-mile network.

Shared Sacrifice and a New Vision

A key theme of virtually every successful private-sector restructuring is shared sacrifice – by customers, creditors, management, employees, and all other stakeholders. We believe that this principle is equally applicable if there is to be a successful restructuring of the Postal Service.

The current Business Plan is one that is largely based on one-sided employee sacrifice leading to the loss of jobs and benefits and critically the degradation of the last-mile network. Delivering a vibrant and growing Postal Service requires a more balanced and independent assessment that would likely result in a more balanced mix of initiatives.

Consistent with a comprehensive rethinking of the Postal Service premised on shared sacrifice, the current governance and regulatory framework of the Postal Service should also be evaluated. The current governance structure, which has been in existence since 1971, does not appear to be consistent with a rapidly moving digital society and the need for bolder strategic thinking to better leverage this national asset. The restructuring of the Postal Service requires a rethinking of the institution that focuses on new opportunities instead of old problems and seeks to proactively leverage the strengths of its network rather than reactively shrinking to survive.

Background

Lazard is a preeminent international financial advisory firm that has long specialized in crafting solutions to the complex financial and strategic challenges of our clients. We serve a diverse set of clients around the world, including corporations, partnerships, institutions, governments and high-net-worth individuals. Lazard and its senior professionals have extensive experience in the reorganization and restructuring of troubled companies and have advised debtors, creditors, equity constituencies and government agencies in numerous complex financial reorganizations. Since 1990, Lazard's professionals have been involved in over 250 restructurings, representing over $1 trillion in debtor assets. Lazard also has over 35 years of government advisory experience involving over 40 sovereign assignments.

Lazard was retained by the National Association of Letter Carriers ("NALC") in November of 2011 in connection with issues relating to the Postal Service. A team of Lazard professionals with extensive experience in providing restructuring advice undertook due diligence of the Postal Service beginning in early 2012.

Attachment 3:

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

February 6, 2012

Senator Bernie Sanders
332 Dirksen Building
United States Senate
Washington, DC 20510

Dear Senator Sanders:

For several days last week, I met with you and your staff to discuss solutions to the current financial crisis within the Postal Service. At the conclusion of those discussions, you requested that our office focus on one of the solutions that we presented which examined an option to address the current benefit fund financing. This proposal would eliminate the requirement for the Postal Service to make annual \$5.5 billion payments into its retiree health benefit fund, and allow the \$44 billion currently in the fund to grow with interest. No payments would be made from the fund until it is deemed to be fully funded, and the Postal Service would continue to directly pay the healthcare premiums for retirees. An additional element of the proposal would allow current overpayments of \$13.1 billion in the Postal Service pension funds to be refunded to the Postal Service. Any future overpayments would also be refunded in the year of occurrence.

Our analysis of this proposal shows that if it were adopted, the amounts in retiree healthcare fund would grow from \$44 billion to the \$90 billion estimated current liability, in 21 years. This \$90 billion projected liability is not a static or precise figure, as there are forces that will increase and decrease the liability. Historically, the figure has risen, but we note that the \$90 billion has not changed significantly over the last 3 years (\$87 billion in 2009, \$91 billion in 2010, and \$90 billion in 2011).

This solution is one option to provide needed short-term flexibility for the Postal Service to address its current financial crisis. It would alleviate payments due of nearly \$30 billion over the next 4 years, and provide an additional \$13 billion to address current needs. Though this would provide substantial relief, additional actions would be necessary to address remaining financial gaps between projected revenues and expenses during the next four year period.

To put the pension and retiree health funding issue into perspective, my office has conducted benchmarking to evaluate the Postal Service's prefunding levels as compared to both the public and private sector. The Postal Service has significantly exceeded pension and retiree healthcare benchmarked funding levels of both public and private sector organizations. Using ratepayer funds, it has built a war chest of over $326 billion to address its future liabilities, prefunding combined pension and retiree healthcare obligations at 91 percent. This is an astonishingly high figure for a company with such a large employee base.

For example, the Postal Service is currently over 100 percent funded in its pension funds. The federal government is funded at a much lower 42 percent level, and the military is funded at 27 percent. The average Fortune 1000 pension plan is funded at 80 percent, and only 6 percent of the Fortune 1000 companies have pension plans that are 100 percent funded.

Prefunding retiree healthcare is rare in the public and private sectors. We have been unable to locate any organization, either public or private, that has anything similar to the Postal Service's required level of prefunding of retiree healthcare benefits. The Postal Service is currently funded at 49 percent of its estimated current liability. The federal government does not prefund its retiree healthcare liabilities at all, and the military is funded at a 35 percent level. Only 38 percent of Fortune 1000 companies who offer retiree health care benefits prefund the expense at all, and the median funding level for those organizations is 37 percent.

I appreciate the opportunity to analyze this proposal, and describe it further. If you have any questions, please do not hesitate to call me or Wally Olihovik, at 703-248-2201.

Sincerely,

David Williams

David C. Williams
Inspector General

Attachment 4:

THE WHITE HOUSE
WASHINGTON

October 13, 2011

The Honorable Darrell Issa
Chair
Committee on Oversight and Government Reform
Washington, D.C. 20515

The Honorable Elijah Cummings
Ranking Member
Committee on Oversight and Government Reform
Washington, D.C. 20515

Dear Chairman Issa and Ranking Member Cummings:

As the House Oversight and Government Reform Committee considers legislation to reform the United States Postal Service (USPS), I wanted to provide you with the Administration's views regarding an option some have suggested to reallocate the relative shares of responsibility for USPS Civil Service Retirement System (CSRS) benefits. After considerable review the Administration concluded that under current law the CSRS allocation could not be changed. While the Administration recognizes that there are competing views as to whether the statutory allocation was proper, the Administration believes the key point now is that we are all trying to take steps to ensure the future viability of the Postal Service which is critical to the Nation's commerce and communications.

The President has put forward a specific and balanced plan that would help the USPS make structural reforms to increase its revenues, reduce its costs, and provide temporary financial relief to allow it time to put in place its new business model, a plan that would protect taxpayers and reduce the budget deficit. The Administration believes Postal Reform legislation should contain these three elements and would be open to considering a balanced legislative plan that instead included alternative forms of financial relief, such as a transfer from the Civil Service Retirement System (CSRS) to the USPS.

Sincerely,

Robert L. Nabors, II
Assistant to the President and
Director of the Office of Legislative Affairs

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Sincerely,

Robert L. Nabors, II
Assistant to the President and
Director of the Office of Legislative Affairs

Attachment 5:

Volume and Revenue Impacts of USPS Service Cuts Planned for 2012

APWU-XE-1

Product	FY 2010 RPW Volumes	Volume Changed Due to Service	Volume change %	Volume After Service Standard Change	2010 RPW Unit Revenue	Revenue Change	2010 ACR Unit Cost	Cost Change	Net Change
First-Class Mail									
Total Single Piece	31,643,333,000	-3,251,562,301	-10.3%	28,391,770,699	$0.580	-$1,885,906,135	$0.349	-$1,134,795,243	-$751,110,892
Total Presort	46,225,386,000	-3,806,412,748	-8.2%	42,418,973,252	$0.345	-$1,313,212,398	$0.117	-$445,350,292	-$867,862,107
Total First-Class Mail	77,868,719,000	-7,057,975,049	-9.1%	70,810,743,951	$0.441	-$3,199,118,533	$0.217	-$1,580,146,535	-$1,618,972,998
Total Standard Mail	82,523,747,000	-4,373,758,591	-5.3%	78,149,988,409	$0.210	-$918,489,304	$0.143	-$625,447,479	-$293,041,826
Total Periodicals	7,269,470,000	-1,432,085,590	-19.7%	5,837,384,410	$0.258	-$369,478,082	$0.343	-$491,205,357	$121,727,275
Priority Mail/Express Mail	852,024,000	-122,719,149	-14.4%	729,304,851	$7.610	-$773,758,417	$5.570	-$600,768,371	-$172,990,046
Parcel Select	268,357,000	0	0.0%	268,357,000	$1.916	$0	$1.415	$0	$0
Parcel Post	89,875,000	0	0.0%	89,875,000	$10.014	$0	$12.195	$0	$0
Media & Library	122,322,000	0	0.0%	122,322,000	$3.015	$0	$3.749	$0	$0
Parcels	212,197,000	0	0.0%	212,197,000	$5.980	$0	$7.330	$0	$0
BPM	474,488,000	0	0.0%	474,488,000	$1.080	$0	$1.010	$0	$0
Totals	169,469,002,000	-12,986,538,379	-7.7%	156,482,463,621		-$5,260,842,336		-$3,297,584,741	-$1,983,277,595

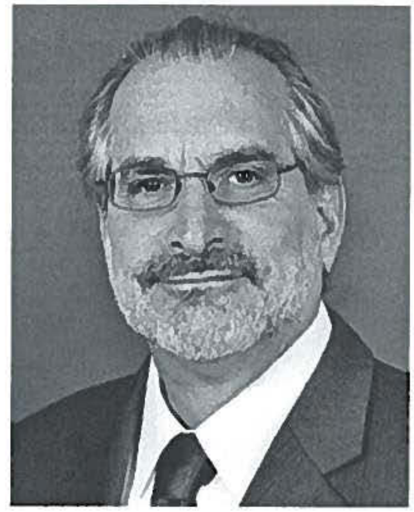
"All Sources" Market Research Preliminary Results

Note: Table provides results of "All Sources" of service cuts, including: ending Saturday deliveries, post office closings and processing plant closings.

Source: PRC and Opinion Research Corporation, 2011.

Fredric V. Rolando

National President



Fredric V. Rolando was elected president of the National Association of Letter Carriers by acclamation in 2010 during the 67th Biennial Convention in Anaheim.

A member of Sarasota, Florida Branch 2148, Rolando began his letter carrier career in 1978 in South Miami, Florida, as a member of Branch 1071. He served as a steward there from 1979 to 1984, when he moved to Sarasota and soon became chief steward there.

"I got active in the union because of the antagonistic way management treated letter carriers," Rolando explained.

In 1988, he was elected president of Sarasota Branch 2148 and held that post until 1999. From 1992 to 1999, he also served as a part-time regional administrative assistant for Atlanta Region 9 and was director of education for the Florida State Association of Letter Carriers from 1993 to 1999. He was named a full-time RAA for the Region 9 in 1999.

Rolando was first elected to national office by acclamation at the 2002 Philadelphia Convention as director of city delivery, having been appointed to that post in February 2002 by President Vincent R. Sombrotto to fill a vacancy.

During his service in the city delivery post, Rolando had the opportunity "to become familiar with many of the specific issues that affect letter carriers, both common and unique to different areas of the country," he said. He took a leading role in preparing the union for "future city delivery issues, which will likely include transitions necessitated by changes in the Postal Service itself."

Rolando's election as NALC executive vice president by acclamation at the 2006 Las Vegas Convention was another affirmation by his fellow letter carriers of their confidence in his abilities as a leader on the Executive Council.

As executive vice president, Rolando focused on working with the U.S. Postal Service to restructure delivery routes of mail carriers in a manner that protected their contractual rights as employees while allowing the Postal Service to have flexibility to meet the financial challenges posed by changing communications technology and the economic crisis.

In July 2009, Rolando was sworn in as the 18th president of the National Association of Letter Carriers following the retirement of William H. Young.

Rolando has a bachelor of science degree in criminology and psychology from Florida International University. He and his wife, Jolene, reside in Fredericksburg, Virginia, and have two daughters and two sons.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Fredric V. Rolando

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2010. Include the source and amount of each grant or contract.

N/A

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

National Association of Letter Carriers, AFL-CIO
National President

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NALC is party to a contract with the Office of Personnel Management (contract number CS 1067) pursuant to which NALC sponsors a fee for service employee organization health benefit plan which is made available to federal and postal employees under the Federal Employees Health Benefits Program.

I certify that the above information is true and correct.
Signature:

Date: 4-15-13